

Portfolio Manager



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“Principal-based investing means we focus on investment principals that have stood the test of time rather than basing our decisions on short-term market predictions. Our goal is to identify a small number of experienced managers who offer the potential to outperform their peers over a long period of time. Our approach is to combine a well-defined quantitative and qualitative due diligence process with proprietary construction tools to build, manage and monitor our client’s portfolios”

Strategy Description

- Tactical portfolios seek to optimize returns over a shorter time horizon than other portfolios we manage.
- Depending on market conditions and prevailing opportunities, more tactical managers may be utilized. These managers may have greater flexibility to overweight certain asset classes according to market conditions compared to other, more traditional, allocation models.
- These portfolios may be preferable for investors who pursue a strategy that actively adjust asset allocations.
- This specific model is designed with a goal to provide current income, moderate capital appreciation potential, and appropriate diversification among asset classes.

Strategic Allocation

| | |
|----------------------|-----|
| U.S. Equity | 32% |
| International Equity | 8% |
| Fixed Income | 60% |

Blended Benchmark Composition

| | |
|--------------------------------|-----|
| US Fund Large Blend | 32% |
| US Fund Foreign Large Blend | 8% |
| US Fund Intermediate-Term Bond | 60% |

PORTFOLIO MANAGER COMMENTARY

Market Review

- The S&P 500 rose by 7.71% during the third quarter, bringing the Year-to-date change in total return to 10.66%. Eight out of the eleven sectors showed gains while Materials, Real Estate, and Energy sectors contracted. International stocks, as measured by the MSCI EAFE Total Return Index rose by 2.36%, and the bond market, as measured by the Bloomberg Barclays US Aggregate Bond Total Return Index was roughly flat with a return of 0.02% (Source: Ned Davis Research, Inc).

Performance Review

- Year-to-date, the portfolio's total return is 1.78% gross of fees, and 0.96% net of an average fee.
- For the trailing five years, the portfolio's total return is 5.44% gross of fees, and 4.2% net of an average fee.
- 5 of 11 sectors positively impacted performance on an absolute basis in this quarter, with the Materials, Consumer Discretionary, Financials, Real Estate, Industrials, and Consumer Staples detracting.

Portfolio Positioning

- The portfolio primarily consists tactical managers, who may be more defensive in difficult markets and more opportunistic in favorable markets.
- The equity portion of the portfolio, compared to the benchmark, had overweight exposure in Materials, Communication, Energy, Technology, and Healthcare and was underweight in Consumer Discretionary, Financials, Real Estate, Industrials, Consumer Staples, and Utilities sectors. At month-end, the equity style breakdown was 86% large cap, and 14% Mid-Small Cap.
- The Bond Credit Rating breakdown was 84% Investment Grade and 16% High-Yield Bonds.

Outlook

- Unemployment in September hit the lowest level since December 1969, according to the Labor Department. Employers added 134,000 jobs to payrolls, a record 96th straight months of gains. Lower taxes, regulatory reform, and fiscal spending should stimulate continued growth in 2019, with little chance of recession on the near-term horizon.

Performance Overview

Net returns are net of the advisory fees

| | As Of 09/30/2018 | | | | | |
|-------------------|------------------|------|------|-------|-------|-----------------------------|
| | Qtr | YTD | 1 Yr | 3 Yrs | 5 Yrs | Since Inception (11/1/2012) |
| Gross (%) | 2.31 | 1.78 | 4.33 | 6.78 | 5.44 | 5.78 |
| Net (%) | 2.02 | 0.96 | 3.07 | 5.38 | 4.20 | 4.61 |
| Blended Benchmark | 2.24 | 1.68 | 4.19 | 6.27 | 5.22 | 5.62 |

Footnotes: See next page for blended benchmark composition definitions.

Important Disclosures

The benchmarks were selected because, in our opinion, they most closely track the types of holdings that are likely to be included in our allocations.

The **Morningstar US Fund Large Blend Category** includes large-blend portfolios which are fairly representative of the overall U.S. stock market in size, growth rates, and price. Stocks in the top 70% of the capitalization of the U.S. equity market are defined as large cap. The blend style is assigned to portfolios where neither growth nor value characteristics predominate. These portfolios tend to invest across the spectrum of US industries, and owing to their broad exposure, the portfolios' returns are often similar to those of the S&P 500 Index.

The **Morningstar US Fund Foreign Large Blend Category** includes foreign large-blend portfolios which invest in a variety of big international stocks. Most of these portfolios divide their assets among a dozen or more developed markets, including Japan, Britain, France, and Germany. These portfolios primarily invest in stocks that have market caps in the top 70% of each economically integrated market (such as Europe or Asia ex-Japan). The blend style is assigned to portfolios where neither growth nor value characteristics predominate. These portfolios typically will have less than 20% of assets invested in U.S. stocks.

The **Morningstar US Fund Intermediate-Term Bond Category** includes managers that focus on corporate, government, foreign or other issues with an average duration of greater than or equal to 3.5 years but less than or equal to six years, or an average effective maturity of more than four years but less than 10 years.

Cornerstone Wealth Management claims compliance with the Global Investment Performance Standards (GIPS®). Cornerstone Wealth Management has complied with all the composite construction requirements of the Global Investment Performance Standards (GIPS®) on a firmwide basis for the periods from January 1, 2016 through December 31, 2016, and designed its policies and procedures to calculate and present performance in compliance with the GIPS standards as of December 31, 2016.

Cornerstone Wealth Management (CWM) is a registered investment adviser with United States Securities and Exchange Commission in accordance with the Investment Advisers Act of 1940. Our firm is defined for GIPS purposes as the Asset Management division of Cornerstone Wealth Management. Prior to August 2012, the representatives of CWM offered investment advice through LPL Financial, a registered investment advisor and separate entity from CWM. To request a compliant presentation and/or list of composite descriptions, please contact Liyin Bao at Liyin.Bao@lpl.com.

The composite may include bundled fee portfolios that pay a fee based on a percentage of assets under management. This fee includes investment management, trading costs, portfolio monitoring, consulting services, and in some cases, custodial services. Net of fee returns were calculated using actual fees. Management fees are booked on a cash basis. Gross returns are supplemental to net returns. Gross returns without bundled fee portfolios are presented net transaction costs as well as custodial fees. Gross returns with bundled fee portfolios may be gross transaction costs and custodial fees of those bundled fee portfolios. Both gross returns and net returns are net of tax withholdings on dividends, interest, and capital gains.

Benchmark indices are unmanaged, and cannot be invested into directly.

2% cash is blended into the above allocations in the actual portfolios as well as the benchmarks. The cash position is set to avoid overbuying caused by market fluctuation and other liquidity problems, and will not change because of market conditions. Refer to the next paragraph for the exact allocations.

Tactical Income with Moderate Growth Composite includes portfolios that aim to capture short-term market opportunities through investing in tactical strategies and changing allocations timely. These portfolios are designed with a goal to provide current income, moderate capital appreciation potential and appropriate diversification among asset classes. The strategic asset allocations are 31.36% in US equity, 7.84% in international equity, 58.8% in fixed income and 2% cash or cash equivalents, with tolerance bands of 10% deviation. The U.S. Dollar is the currency used to express performance. Performance includes the reinvestment of income.

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. All indices are unmanaged and may not be invested into directly.

Market Index Definitions:

The **Standard & Poor's 500 Index** is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The **Bloomberg Barclays US Aggregate Bond Index** is an index of U.S. investment-grade fixed-rate bond market, including both government and corporate bonds.

The **MSCI EAFE Index** captures the returns of large and mid-cap equities across developed markets in Europe, Australasia, and the Far East, excluding the U.S. and Canada.

No strategy assures success or protects against loss. All investing involves risk, including potential for loss. The prices of small and mid-cap stocks are generally more volatile than large cap stocks. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price. High yield/junk bonds (grade BB or below) are not investment grade securities, and are subject to higher interest rate, credit, and liquidity risks than those graded BBB and above. International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. Investing concentrated in certain markets and sectors carries additional risk such as economic, political, or regulatory development that may affect many or all issuers in that sector.

Past performance is no guarantee of future results. Investors participating in this model portfolio may experience different individual performance results.